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ABSTRACT

This study determined the number of Pennsylvania school districts that invest surplus funds and the rate of return on these investments. Also examined was the relationship among the amount of money earned from investments and the assessed value of the district, the aid ratio, the income from real estate, and the beginning and ending balance to determine which variables affect the investment process. Descriptions of practices for efficient investment of school funds are included. (Author/JF)

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Investment Practices of Local School Districts

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SUMMARY

School districts may invest income not needed immediately (Section 440.1, Pennsylvania School Code). In 1969-70 over 27 per cent of Pennsylvania's school districts reported no earnings from investments while the remaining school districts earned from .0014 to 6.1649 equivalent mills on assessed valuation. The collective total of these earnings was $14,822,002 in 1969-70.

Even though Philadelphia had to borrow large sums, the judicious investment of funds for short periods produced $240,859 in interest. As might be expected, there is a very high statewide correlation of .877 between investment return and the amount of real estate taxes. Also evident was a systematic planned investment program in the ten districts earning the most money.

The smallest districts also realized additional revenue from investments. A cash flow chart based on the past should be used to guide a month by month investment program.

Tax collectors should be required to deposit tax collections at least weekly in the school district account. Exceptionally large collections should be turned over immediately.

Most school districts with alert fiscal management should not need more than $50,000 in their checking accounts, except on such occasions as payroll days. It is recommended that Section 440.1 of the School Laws of Pennsylvania which reads,

> "The board of school directors...may authorize...temporary investment of school district funds...."

be amended to read,

> "The board of school directors...shall authorize...temporary investment of school district funds...."

INVESTMENT PRACTICES OF LOCAL SCHOOL DISTRICTS

Background of the Problem

School districts may invest funds which are surplus, i.e., not needed immediately to meet current expenses, in various forms of short-term securities, such as United States treasury bills and certificates of deposit, and thereby earn the equivalent of three, four, five and sometimes six mills on their assessed valuation.

The School Laws of Pennsylvania provide the necessary authority for school districts to make such temporary investments.

> Section 440.1 Temporary Investment of School District Funds
> The board of school directors in any school district of the first class, first class A, second, third or fourth class may authorize the treasurer of such school district to make temporary investment of school district funds in United States treasury bills, or to place such funds in time accounts or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation to the extent that such accounts are so insured or in certificates of deposit to the extent such certificates are secured by a proper bond in accordance with section 621 of this act or secured by such collateral as is set forth in section 622 of this act when, in its judgment, the interest of the school district will be enhanced thereby, and to dispose of such securities when the funds may be needed by the school district. Any such purchase or sale shall be made by the treasurer of the school district on a resolution adopted by the board of school directors. (Added June 1, 1959, P.L. 339; amended April 25, 1968, Act No. 46)

Sections 621 and 622, as they relate to the investment of school district funds, are concerned with the type of security provided by the banking institutions selected by the school board to handle district funds.

Section 621 states that banking institutions may furnish a surety bond or bonds as security for school district moneys deposited.

Section 622 states that, in lieu of one or more surety bonds, banking institutions may secure deposits of school funds with specified "bonds or other interest bearing obligations."

Problem

To what extent are Pennsylvania school districts investing funds to realize earnings? How much are school districts realizing from such investments? Can all school districts earn money from investments?

The purpose of this study was first, to determine the number of school districts in Pennsylvania which invest surplus funds and, further, to determine the rate of return in terms of millage equivalents that these

district earn. A second purpose was to determine what the relationship is between the amount of money earned from investments and the assessed value of the district, aid ratio, income from real estate, income from Act 511 taxes, beginning balance and ending balance to determine which variables affect the investment process.

Finally, it was hoped that by identifying those districts with a relatively high rate of return and by interviewing by telephone the people who are responsible for investing their school district funds, a procedure could be suggested whereby the number of districts reporting earnings could be increased and the amount of earnings could be greatly increased.

Findings

The total earnings of all the Pennsylvania school districts (669) from investments for 1969-70 were $14,822,002.

The range of return on investments in equivalent mills on assessed valuation ranged from .0014 to 6.1649. Over 27 per cent (185) of the school districts reported no earnings from investments (Table I). An additional 20.62 per cent or 138 districts earned less than the equivalent of one-half mill of their assessed valuation. Together, these two groups represent 48.27 per cent of the total number of districts surveyed. Thus, almost one-half of the district earned either nothing or less than one-half mill equivalent from investments. Some 67.85 per cent of the school districts earned either nothing or less than one mill equivalent.

On the positive side, 69 or 10.31 per cent of the districts show a return from investments of two equivalent mills or more. The ten districts with the highest rate of return earned more than four equivalent mills (Table II).

Table III lists the ten school districts and Philadelphia and Pittsburgh with the largest return in total dollars on investments. It is evident that some districts with lower assessed valuations earn more money than districts with higher assessed valuations. The fiscal position of the school district also affects the amount of return on investments. For example, Philadelphia, which has been in a financial squeeze, has had to borrow money in many cases to meet current expenses while many other school districts have not been in this situation. However, some smaller school districts also found it necessary to borrow money.

The Philadelphia case illustrates the point that even though large sums of money are borrowed, the judicious investment of funds, even for a short period, produces added earnings which help offset the cost of borrowing the money. It appears that all districts should be earning money by investing tax income.

A statistical analysis was used to identify the most significant variables affecting investment returns. A stepwise regression program,

which computes a sequence of multiple linear regression equations in a stepwise manner, was selected. At each step, one variable is added to the regression equation. The variable added is the one which gives the most variance with investment earnings.

The correlations between investment and all the fiscal variables were significant at the .01 level. The highest correlation, .877, was between investment and a mount of real estate taxes. This accounted for 76.86 per cent of the variance. Adding beginning balances and assessed valuation to the equation accounted for another 2.61 per cent of the variance. The remaining three variables, ending balance, Act 511 taxes and aid ratio accounted for only 0.4 of one per cent additional variance.

Since all the variables are significantly related to investment, they do contribute to the amount of investment earned. The single greatest factor in investment return is the amount of real estate taxes.

In contacting the ten districts with the highest equivalent millage returns, it was found that the most important factor affecting investment returns was a planned investment program resulting from investments of certificates of deposit and treasury bills (Table IV).

The districts' personnel indicated that the practice of waiting until a large sum accumulates and investing for 30 to 90 days does not result in greater earnings. Development of a cash flow chart for the entire year provided the best information to guide their investment programs. Carrying large amounts in checking accounts was avoided. Even the smallest districts realized additional revenue from a planned investment program of money from all sources.

Recommended Practices for More Efficient Investment of School Funds

A cash flow should be developed by months for the year beginning July 1. Anticipated earnings from all sources should be limited to the month when they are expected to be earned. Anticipated expenditures should also be charted for each month. The payroll can easily be estimated. Debt service can also be easily scheduled. Current bills can also be estimated. Fuel bills can easily be estimated from previous years. State subsidies payable by quarters can be estimated. (Late payments may require adjustments.) Tax returns by month can be obtained from past records.

EXAMPLE OF CASH FLOW CHART

Month	Cash Receipts	Other Inflows	Cash Payments	Outflows Others	Cash Balance Last Day of Month (Checking Acct.)
	ITEMS ARE IDENTIFIED UNDER EACH HEADING				
	Taxes State sub-subsidies	Transfers from cafe. account Treasury bills maturing	Payroll Current bills Debt Service All others	Investments	
July 1	BEGINNING CASH BALANCE				$100,000
July	$400,000	$2,000	$ 50,000	$400,000	$ 52,000
August	200,000		80,000	150,000	22,000
Sept.	400,000		180,000	200,000	42,000
Oct.	300,000		180,000	125,000	37,000
Nov.					
Dec.					
Jan.					
Feb.					
March					
April					
May					
June					

The first extra cash received should be invested for the longest time (11 months).

The next extra cash received should be invested for the next longest time.

The cash flow should enable an administrator to determine that with the receipts of taxes, state subsidy, etc., few investments would need to be redeemed in four or more months since cash receipts will cover the requirements for that period.

Another source of ready funds for some school districts are tax funds sometimes held by tax collectors in their own accounts. The school board, by resolution, may require the tax collector to deposit tax funds daily or weekly in the school district account, which would make the money readily available to the district. In the case of large taxpayers such as industry, the school board could by resolution require an immediate turnover of the tax money. Authority for the school district to require tax collectors to

deposit the money in the school districts account are sections 660 and 3043 of the School Laws of Pennsylvania.

Section 660 Monthly Reports: Payment of Taxes Collected
In every school district of the first class the receiver of taxes, city treasurer, or other proper authority collecting or receiving the school taxes as herein provided, shall, at the end of each month, report to the board of public education, and to the school comptroller, the total amount of school taxes collected during the month, setting forth the years for which collected. He shall pay the same when and as collected to the school treasurer, and shall file with the school controller a duplicate receipt therefor, and shall, at the end of each month, also report the total amount collected during the current fiscal year, and the unexonerated balance remaining uncollected on the tax duplicate for each year in such district.

Section 3043 Collection and Payment Over of Taxes
The tax collector shall keep a correct account of all moneys collected by him as taxes under the authority of any duplicate or duplicates in his possession. He shall mark "paid" on each duplicate at the name of each taxable, the amount of taxes paid, and the date on which payment was made.

The tax collector shall on or before the tenth day of each month, or oftener, if required by ordinance or resolution of the taxing district, make a true, verified statement, in writing to the secretary or clerk of the taxing district, or in the case of cities of the third class, to the director of accounts and finance, if and as required, for all taxes collected for such taxing district during the previous month or period, giving the names of taxables, the amount collected from each, along with discounts granted or penalties applied, if any, and the total amount of taxes received, discounts granted and penalties applied. The collector shall pay over on or before the tenth day of each month, or oftener, if required by ordinance or resolution of the taxing district, to the treasurer of the taxing district all moneys collected as taxes during the previous month or period and take his receipt for the same.

The tax collector shall, at any time on demand of any taxing district, exhibit any duplicate in his possession showing the uncollected taxes as of any date. (Section 25, Act of May 25, 1945, P.L. 1050; amended September 8, 1959, P.L. 806)

Even though interest rates have dropped, a check with the banks will keep one informed regarding the best form of investments within the provisions of the school law to yield the highest return.

Some limit such as $50,000 should be set as the normal balance remaining in the checking account. A sum such as $300,000 should not be left in a checking account from the beginning of the month because

payrolls are due on the 25th. The investment program should be developed so that investments, if needed, would come due on the 25th.

Implications

The implications growing out of this study are that the adoption of good business practices is more important than any other single variable. The setting up of a cash flow chart, adopting resolutions requiring the prompt deposits of tax collections by tax collectors to the school treasurer and a written resolution of the school board authorizing the business manager, superintendent or other responsible official to invest moneys promptly would greatly increase the amount of money earned from investments. All school systems should earn money by investing tax income for the longest period of time.

TABLE I

NUMBER OF DISTRICTS EARNING VARIOUS

MILLAGE EQUIVALENTS 1969-70

Millage Equivalent Earnings	Number of Districts	Per Cent of Total
None	185	27.65
.01 - .49	138	20.62
.50 - .99	131	19.58
1.00 - 1.49	88	13.15
1.50 - 1.99	58	8.66
2.00 - 2.49	32	4.78
2.50 - 2.99	17	2.54
3.00 - 3.49	2	0.29
3.50 - 3.99	8	1.19
4.00 - 4.49	7	1.05
4.50 - 4.99	0	0.00
5.00 - 5.49	1	0.15
5.50 - 5.99	0	0.00
6.00 - 6.49	2	0.30

TABLE II

TEN PENNSYLVANIA SCHOOL DISTRICTS
REPORTING HIGHEST MILLAGE
EQUIVALENT EARNINGS 1969-70

COUNTY	DISTRICT	ASSESSED VALUATION	RETURN ON INVESTMENT	MILLEAGE EQUIVALENT	AID RATIO
Huntingdon	Juniata Valley	$ 4,256,106	$ 26,238	6.1649	.7319
Clearfield	Glendale	3,675,184	22,452	6.1093	.8325
Lycoming	Jersey Shore A.	11,722,827	60,085	5.1258	.7583
Susquehanna	Elk Lake	3,882,085	17,174	4.420	.8038
Montgomery	Jenkintown Boro	12,695,200	55,117	4.3416	.1000
Potter	Austin Area	1,258,400	5,459	4.3394	.7055
Lycoming	Montgomery Area	4,600,200	19,347	4.2058	.7149
Delaware	Upland Boro	2,075,310	8,558	4.1243	.7169
McKean	Kane Area	6,631,456	26,982	4.0690	.7399
Union	Mifflinburg Area	6,942,280	27,972	4.0293	.7090

TABLE III

TWELVE PENNSYLVANIA SCHOOL DISTRICTS REPORTING

HIGHEST AMOUNT OF EARNINGS - 1969-70

COUNTY	DISTRICT	ASSESSED VALUATION	EARNINGS	MILLAGE EQUIVALENT
Allegheny	Pittsburgh	$1,365,100,000	$ 917,889	.6723
Philadelphia	Philadelphia	4,666,412,310	240,859	.0516
Montgomery	Lower Merion	245,715,865	239,343	.9740
Delaware	Upper Darby	101,490,480	217,629	2.1443
Northampton	Bethlehem Area	282,706,250	213,096	.7537
Montgomery	Colonial S.D.	94,277,539	193,441	2.0518
Delaware	Haverford Twp.	64,198,225	176,589	2.7506
Montgomery	Abington S.D.	146,123,308	174,583	1.1947
Montgomery	Cheltenham Twp.	90,923,300	172,197	1.8938
Bucks	Pennsbury	101,455,140	167,189	1.6479
Dauphin	Harrisburg City	187,053,923	159,444	.8524
Bucks	Neshaminy	68,116,067	159,385	2.3399

TABLE IV

SUMMARY OF INVESTMENT PRACTICES OF TEN SCHOOL DISTRICTS
EARNING THE HIGHEST EQUIVALENT MILLAGE EARNINGS

DISTRICTS	PERSON INVESTING	TYPE OF INVESTMENTS	SOURCE OF MONEY INVESTED	SPECIAL CONDITIONS	AUTHORIZATION TO INVEST GIVEN BY
Juniata Valley Huntingdon Co.	Superintendent	Certificate of Deposit	Taxes, state subsidies, surplus funds	$400,000 fire insurance from a building which burned	School Board
Glendale Clearfield Co.	Treasurer	90-day United States Treasury bills	Taxes, state subsidies	Earned 5-4/5 per cent; now down to 4 per cent	School Board
Jersey Shore Area Lycoming Co.	Superintendent	Certificate of Deposit, competition between two banks, United States Treasury bills	Tax moneys, subsidies, money not expended until end of year	Carries a small bank check balance at close of each month ($57,000 to $83,000), contracts for supplies late in the year for next year. Money budgeted for this is invested until delivery and payment is due	School Board
Elk Lake Susquehanna Co.	Business Manager	United States Treasury bills	Taxes, subsidies	Cash flow chart maintained	School Board
Jenkintown Montgomery Co.	Business Manager	Certificates of Deposit in banks and savings and loan association	Bond issue, tax moneys, subsidies	In 1970 the investment earnings amounted to $55,000 due to an $800,000 bond issue. Good business practices in 1970-71 resulted in earnings of $35,000 without the bond issue	School Board

TABLE IV
(continued)

SUMMARY OF INVESTMENT PRACTICES OF TEN SCHOOL DISTRICTS
EARNING THE HIGHEST EQUIVALENT MILLAGE EARNINGS

DISTRICTS	PERSON INVESTING	TYPE OF INVESTMENTS	SOURCE OF MONEY INVESTED	SPECIAL CONDITIONS	AUTHORIZATION TO INVEST GIVEN BY
Austin Area Potter Co.	Superintendent	Certificate of Deposit, usually for a minimum of 90 days	Taxes, subsidies	Part-time secretary and a treasurer who are not board members	School Board with approval of secretary and treasurer
Montgomery Area Lycoming Co.	Superintendent	Certificate of Deposit, United States Treasury bills, depending on rate	Taxes, subsidies	Invests money the day it is received	School Board
Upland Boro Delaware Co.	Superintendent	Certificate of Deposit, United States Treasury bills	Taxes, subsidies, unexpended balances	Invests for 90 days or longer. Payment of bills sometimes delayed until certificates mature. Two bankers are on the board and offer good counsel.	School Board
Kane Area McKean Co.	Business Manager who is also Secretary of the School Board	Certificate of Deposit, United States Treasury bills	Unexpended balances, taxes, subsidies	A cash flow chart is maintained. A 5-year record is used for estimated expenses and income.	School Board
Mifflinburg Area Union Co.	Superintendent	Certificate of Deposit, United States Treasury bills	Capital reserve fund, taxes, subsidies	Unexpended funds were invested and then set aside for a capital reserve fund. A bank is appointed as treasurer. Superintendent consults with the bank regarding investments. Tax collectors required to settle by end of each month.	School Board